# Public Accounts – Communications Contingency Planning

DRAFT – CONFIDENTIAL ADVICE TO CABINET

## Issue:

There is potential that the Auditor General will issue a qualified audit opinion on the 2015-16 Public Accounts of Ontario. The qualified opinion would be based on the AG's position on the Public Sector Accounting Board's (PSAB) requirements for pension related accounting, despite her and two previous Auditors General having agreed to the Province's existing accounting for pension assets for the last 15 years. A qualified opinion would indicate that based on her work, the Auditor General feels that the financial results of the province are materially misstated. The AG would disclose that the 2015-16 deficit should be $5.0 billion, rather than $3.5 billion.

## Strategic Approach:

Regardless of which scenario is pursued, it is recommended that the government's communications approach remain neutral and factual – balancing the need for the government to state its position, while demonstrating respect for all parties involved, i.e. AG, members of the Legislative Assembly and public.

Communications narrative will recognize that the issue is complex in nature and requires ongoing deliberations with the goal of achieving a mutually agreeable solution. For example, the complexity of the issue is recognized by PSAB itself, and it has made it an area of study. At the same time, it is important for the government to demonstrate due diligence in its attempt to resolve the issue.

Existing scenario messaging makes reference to seeking external third party accounting advice to confirm that the Province's position is reasonable. To the extent that circumstances allow, the communications approach and tactics will leverage this third party advice in its messaging. For example this could include publicly releasing the opinion itself, or portions of it, or securing quotes from recognized third-party experts.

## Overarching Key Messages (specific to pension issue):

- As part of this year's Public Accounts audit work, the Auditor General has identified an issue regarding the treatment of pension assets.
- It is our view that the Public Accounts are presented in a way that fairly presents the Province's financial position and results – including its pension assets.
- Ontario has followed the same pension accounting treatment for the past 15 years. This had been accepted by the current Auditor General for the last two years.
- The government will continue to discuss this item with the Auditor General and other accounting experts to exchange information and determine next steps.

**Scenarios:**

Two scenarios are currently under consideration:

1. Accept a qualified audit opinion; or

2. Amend the Financial Accountability Act to allow the government to table Public Accounts beyond the legislated deadline of Sept. 27. Amendments could be made to:
    a. Implement a new deadline
    b. Change the definition of “extraordinary circumstances”
    c. Allow the Minister to make a statement to explain why the deadline wasn’t met

## Scenario 1 – Accept a Qualified Audit Opinion

**Overview:**

- Government accepts a qualified audit opinion and reports the results based on its interpretation of Public Sector Accounting Standards.

- This means the financial results reported in Public Accounts, including the 2015-16 deficit of $3.5 billion remain unchanged.

- However, the AG’s audit opinion would disclose her estimate of the impact on the province’s results (that the overall deficit should be higher by $1.5 billion and that the currently reported pension assets ($10.6 billion) should be written off and added to the accumulated deficit and net debt).

**Considerations:**

- Because this would be the first time the Province has received a qualified audit opinion in XX years, it will attract negative media and opposition reaction. The public will also be confused as to what this means for the province’s finances as well as its pension plans.

- Allows opposition and media to call into question the Province’s financial position and reporting. Puts onus on the government to explain the nuances of a complex accounting procedure – which the public is unlikely to understand.

- As an independent officer of the Legislature, the public are likely to perceive the Auditor General as being more credible. This would make it difficult for any of the government’s communications to resonate.

- The government and the AG have both sought third-party advice on the accounting treatment in question. Their opinions may support or disagree with the government's position. If the third-party advice to government supports its position, consideration should be given as to how proactive the government publicly discusses that advice.

- Other provinces have also received qualified audit opinions and communications could reference this fact.

- A strong issues management plan would need to be developed to deal with the ramifications of a qualified audit opinion. This plan would need to be flexible to be able to respond to comments from the AG or opposition, or reaction from media and general public.

**Auditor General Reaction:**

- Should the government accept a qualified opinion, it is anticipated the AG will publicly advocate that her position is right, and call on the government to adopt her interpretation of PSAB to present its results fairly.

- The AG could also argue that the Province was artificially reducing its deficit by reporting increases in its pension asset when it doesn't actually have the legal ability to benefit from the gain.

- The Auditor's position may generate concerns that the public, elected officials, FAO and credit rating agencies cannot fully assess the fiscal situation using the province's financial statements in 2015-16 Public Accounts.

**Communications Tactics and Products:**

- Use all of the existing communications materials being planned for the release of Public Accounts (news release, backgrounder, data visualization tools, etc.) and release these materials as usual once Public Accounts are made public.

- Supplement existing products with messaging specifically on this issue (qualification) for use in scrums as well as a statement to be issued by the Premier and/or Minister Sousa and Minister Sandals directly to the Queen's Park press gallery.

- Government could consider organizing a technical briefing on the pension asset issue – TBC

**Messaging to be inserted in existing news release:**

- The province's financial results show it has once again beaten its deficit targets and is on track to balance the budget by 2017-18.
- The province has received a qualified audit opinion from the Auditor General on the 2015-16 Public Accounts regarding the Province's treatment of pension assets.
- The Province has sought external advice, including a third-party accounting opinion, which confirmed that the Province's position is reasonable (TBC).
- The government will continue to discuss this item with the Auditor General and other accounting experts to exchange information and determine next steps to resolve this issue. Ontario also plans to provide input to the Public Sector Accounting Board in its upcoming project on pension accounting.

## Scenario 2 – Amend the Financial Accountability Act

**Overview:**

- Amend the Financial Accountability Act to allow the government to table Public Accounts beyond the legislated deadline of Sept. 27.
- Amendments could be made to:

  a) Implement a new deadline (either to allow government to work with Auditor General to come to a resolution, or to allow the Auditor General time to analyze the Government's independent accounting advice)

  b) Change the definition of "extraordinary circumstances"

  c) Allow the Minister to make a statement to explain why the deadline wasn't met

- This legislation would need to be introduced and given Royal Assent before Sept. 27 (four sitting days) for the government to meet its legislated deadline.

**Considerations:**

- Opposition or media may accuse the government of hiding the Province's results by delaying the publication of Public Accounts. Would put pressure on the government to explain its rationale.

- Depending on the state of discussions with the AG, consideration would need to be given as to how to message each scenario.

- A strong issues management plan would need to be developed to deal with the chosen option. This plan would need to be flexible to be able to respond to comments from the AG or opposition, or reaction from media and general public.

**Auditor General Reaction:**

- It is anticipated the Auditor General will not proactively comment on or support the need for a delay in tabling Public Accounts.

- However, when asked, the Auditor General may suggest that the government could have done more to address the situation earlier during her audit, and reiterate her position that she believes that her interpretation of the accounting standards at issue is correct.

**Communications Tactics and Products:**

For each of options a), b) and c), the following tactics would be considered:

- Minister's statement in the house to introduce amendments

- Issue a media bulletin on Newsroom (web posting only, no email distribution to subscribers) following introduction to provide a record the government can point to. Risk that a bulletin in addition to Minister's house statement could spark further reaction from the AG, prolonging the news cycle of the story.

- Supplementary messaging and Qs&As on the reason for delay for use in media scrums, as well as a statement to be issued by the Premier and/or Minister Sousa and Minister Sandals directly to the Queen's Park press gallery.

**Messaging for Statement:**

- The Public Accounts is a central document to demonstrating the province's transparency in reporting the province's financial activities and position. It is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

- We have a responsibility in ensuring that the financial information as presented in Public Accounts best reflects the underlying economic substance of the government's activities in serving the needs of users of the government's financial statements.

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- As part of this year's Public Accounts work with the Auditor General, we have identified an issue regarding the treatment of pension assets.

- We believe that this particularly complex accounting matter would benefit from additional discussions and consideration before finalizing this year's Public Accounts, [which the Auditor General has agreed to through a joint process TBC].

- *[We have agreed to a joint process with the Auditor General to review the accounting treatment of pension assets on the Province's books. TBC]*

- *[In light of this, the province is proposing to defer the tabling of Public Accounts until this issue is resolved or by date TBC.]*

- Ontario is not alone when it comes to facing issues such as this. New Brunswick and Alberta have both faced similar issues.

- The Public Sector Accounting Board has identified the accounting standards of reporting pension assets as a current issue and they are working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

- It is in the mutual best interest of the Province and the Auditor General to ensure that the accounting treatment is appropriate to achieve fair presentation of the Province's results.

- We look forward to working with the Auditor General, the Public Sector Accounting Board as well as third-party experts to resolve this issue.

- *[placeholder to announce details of panel or names of third-party experts as appropriate.]*